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January 22, 2015

Department of Health Care Policy and Financing
Ms. Nancy Dolson, Special Financing Division Director
1570 Grant Street
Denver, CO 80203

Dear Ms. Dolson,

The purpose of this letter is to confirm for the State of Colorado, Department of Health Care Policy and Financing (HCPF), that a software programming error in a tool developed and maintained by Public Consulting Group, Inc. (PCG) has resulted in calculation errors impacting the Hospital Provider Fee and Supplemental Payment program for Federal Fiscal Year 2014-15, referenced throughout this correspondence as the 2014-15 Hospital Provider Fee model.

Due to these calculation errors, HCPF will be required to make adjustments to the 2014-15 Hospital Provider Fee model in order to ensure compliance with Centers for Medicare and Medicaid Services (CMS) regulations. These errors impact all Colorado hospitals. Once new 2014-15 Hospital Provider Fee model calculations are completed by HCPF, hospitals will likely need to revisit previously finalized hospital budgets and related financial planning efforts for the current hospital fiscal year.

PCG sincerely apologizes to HCPF, the Colorado Hospital Association (CHA), and Colorado hospitals for the issues generated as a result of these errors. PCG understands the severity of these issues and deeply regrets the fiscal impact these errors will potentially have, both on individual providers, and on our partners at the state level. We are committed to do whatever it takes to work with HCPF to mitigate these errors to the greatest extent possible.

Background

The software tool that did not meet expectations is known as the Uniform Cost Report (UCR) application, a web based tool designed to collect financial and statistical information from Colorado Hospitals in order to calculate Medicaid and uninsured care inpatient and hospital costs. Resulting cost calculations from the UCR application are a critical data source used by HCPF in the design of the 2014-15 Hospital Provider Fee model, which results in approximately \$1.2 billion in Medicaid supplemental payments to hospitals.

What Happened?

The cost calculations impacted by the UCR errors are specific to hospital fiscal year 2012 Medicaid and uninsured cost calculations. These calculations were used as the basis of supplemental payments developed for the 2014-15 Hospital Provider Fee model, which was presented and approved by the Hospital Provider Fee and Oversight and Advisory Board (OAB) in October 2014.

Problems Identified

PCG has performed a detailed examination of the calculations of the hospital fiscal year 2012 Medicaid and Uninsured cost calculations generated by the UCR application. The following issues were identified and impact hospitals whenever applicable.

- 1. Errors in the Per Diem Cost Calculations for Distinct Part Psychiatric and Rehabilitation Units.** Per diem costs, or cost per day calculations, were not correctly calculated for those providers with distinct part inpatient psychiatric facility (IPF) and distinct part inpatient rehabilitation facility (IRF) units. Due to a transposition error in the data upload process to the UCR application, the rehabilitation cost per day was applied to the IPF days and therefore resulted in inaccurate cost calculations for IPF services. This occurred for both Medicaid and uninsured cost calculations. For those facilities with a distinct IRF unit, no costs were calculated and therefore there was no credit given for these services due to the calculation error.
- 2. Mislabeling of Certain Ancillary Cost Centers Causing an Overall Cost to Charge Ratio to be Incorrectly Applied to Certain Ancillary Cost Centers.** The UCR application displayed incorrect cost center descriptions or labels for five common ancillary costs centers. Due to the design of the UCR application database, this mislabeling caused an incorrect calculation of costs, as the cost center specific cost to charge ratio (CCR) was not applied to charges specific to certain common ancillary cost centers. For example, the emergency room (ER) cost center (cost center 91.00) was mislabeled as “endoscopy” within the UCR application. As a result, the overall CCR, not the ER specific CCR, was used to calculate inpatient ancillary and outpatient ER hospital costs, resulting in inaccurate cost calculations. This same issue also impacted the following cost centers: Recovery Room (cost center 51), Therapeutic Radiology (cost center 55), Radioisotope (cost center 56), and Packed Red Blood Cells (cost center 62). In each of these instances, provider costs were not calculated accurately.
- 3. Provider Created Cost Centers.** The current UCR application allows end users to add cost centers. However, in order for the system to correctly match the statistics entered in these cost centers to the appropriate cost center specific ratio, the cost center description entered by the end user had to exactly match the description given on the Cost to Charge Ratio or Per Diem Page. Even if the cost center number was correct, if the description did not match exactly, provider created cost centers were paid using the overall cost to charge ratio or default per diem. For example, if a provider added a cost center labelled “Emergency” the correct Emergency cost to charge ratio would be used. However, if the

provider added a cost center labelled “Emergency Room”, the match failed, as it was not an exact match to the cost center label of “Emergency” in the UCR application database and costs were calculated using the overall cost to charge ratio.

- 4. Cost Centers with Ratios of Zero.** When a standard cost center was not populated in the hospital's CMS 2552-10 cost report, a ratio of 0% or \$0 per day was generated in the UCR application. Therefore, when providers entered data for these cost centers, the statistics were ignored and no costs were calculated, rather than using the overall CCR or default per diem cost.

In addition to these systemic issues, there were a few, but impactful provider specific issues. For example, an initial report generated from the UCR application and provided to HCPF significantly overstated inpatient ancillary costs for a few providers. This occurred because of an upload error for CCR data that resulted in a 100% CCR being applied to all inpatient ancillary costs for certain hospitals. The error was corrected within the UCR application, but the original extract report provided to HCPF was never regenerated to correctly reflect these necessary changes.

Agency Impact

The UCR application calculation issues resulted in inaccurate cost calculations, which in turn impacts supplemental payments that were developed by HCPF for the 2014-15 Hospital Provider Fee model. Specifically, the UCR application was designed to support HCPF to develop supplemental payments that conformed to upper payment limit (UPL) requirements and provider specific disproportionate share hospital (DSH) payment limits, as required by CMS. Due to the calculation errors, HCPF will be required to make adjustments to the 2014-15 Hospital Provider Fee model in order to ensure compliance with CMS regulations.

Provider Impact

These errors impact all Colorado hospitals, as corrections to these errors will result in adjustments to the OAB-approved 2014-15 Hospital Provider Fee model. This will potentially impact hospital budgets and previously finalized financial planning efforts completed by individual hospitals.

PCG understands the severity of these issues and deeply regrets the fiscal impact these errors will have, both on individual providers, and on our partners at the state level. We recognize that these mistakes create questions on the credibility of the Hospital Provider Fee model development process, which HCPF, the OAB, and CHA have worked hard to establish as a transparent and defensible process. Although the errors will be impactful, they should not be viewed as intentional, nor eradicate the successes achieved to date by HCPF, OAB, and CHA to build a credible and transparent Provider Fee model process, as these errors were the responsibility of PCG and the UCR application. PCG is committed to providing the necessary support to HCPF and the provider community as the corrected cost calculations are circulated and the 2014-15 Hospital Provider Fee model is updated.

Mitigation Plan

PCG has prepared a mitigation plan that will first address the immediate issues of the incorrect cost calculations for 2012, as well as overhaul the cost calculation process and UCR application entirely to prevent future issues. The mitigation plan includes:

1. ***Providing corrected cost calculations workbooks for each and every provider that reflect the changes to cost as a result of the necessary corrections to the issues articulated in this letter.*** PCG has developed individual provider Medicaid and uninsured cost calculation workbooks to be distributed to hospitals. These workbooks outline the corrections to the hospital fiscal year 2012 Medicaid and Uninsured cost calculations generated by the UCR application. PCG stands by to support and answer any questions about the corrected cost calculations.
2. ***Working with HCPF to make necessary revisions to the 2014-15 Provider Fee model with an attempt to mitigate the fiscal impact to the greatest extent possible to hospitals.*** Please note that the impact to payments under the 2014-15 Hospital Provider Fee model from the corrected cost calculations will not be known until the data corrections are incorporated into the 2014-15 Hospital Provider Fee model. PCG will support HCPF in revising the 2014-2015 model to reflect the correct cost calculations and will work with HCPF and CHA to mitigate the financial impact to individual hospitals to the greatest extent possible.
3. ***Overhauling the UCR tool to improve prospective calculation processes and eliminating these issues from occurring into the future.*** The Colorado UCR application is being completely revamped by PCG in order to eliminate these issues from occurring into the future. We have assigned additional resources to build a new site from the ground up which eliminates many of the design flaws that led to these data issues and incorporates validation processes to automatically review data entered both by users and by PCG staff maintaining the site. For example, PCG is in the process of:
 - Revamping the backend database architecture which relied upon the matching of Medicare cost center text descriptions to ensure accurate cost calculations and instead transitioning to using the unique cost center identification numbers from the standard Medicare cost report to facilitate calculations.
 - Leveraging electronic cost report information from the Healthcare Cost Report Information System (HCRIS) database made available by CMS to eliminate data entry processes to the greatest extent feasible.
 - Leveraging HCRIS to display all provider specific cost center name descriptions to exactly replicate each provider's cost reporting form.
 - Eliminating user entered cost centers, which resulted in functional and calculation error issues and should not be allowed initially, as cost centers are already defined in the completed Medicare cost report form.

- Providing a much improved end user experience within the site, thus improving transparency on the cost calculations.
- Improving management reporting capabilities to allow for more oversight on the output cost calculations by HCPF, CHA, and other stakeholders.

4. *Improving internal processes to complete more year to year trend analyses to identify statistical outliers.* In addition to the re-designed UCR application, PCG's internal manual Quality Assurance (QA) and data management processes for this project have been overhauled and improved. For example, PCG has developed manual data validations back to paper based Medicare cost reports to ensure all cost calculations are accurate. Each and every per diem and cost to charge ratio calculations will be checked and double checked for accuracy. In addition, PCG will complete year to year provider comparisons to identify obvious data issues when variances in cost are significant from year to year. When these issues are identified, they will be investigated further to ensure there are not cost calculation issues.

In summary, PCG sincerely apologizes to HCPF, CHA, and Colorado hospitals for the issues generated as a result of these errors. We are committed to working with HCPF and CHA to provide the necessary support throughout this difficult process.

Sincerely,

Public Consulting Group, Inc.